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ABSTRACT

This pamphlet summarizes the accomplishments of the United States Department of Education's Office of Inspector General (OIG) during the 6-month period ended March 31, 1990. The pamphlet focuses on audit, investigative, and other activities, in order to provide information about current OIG efforts to prevent and detect fraud, waste, or mismanagement in Department of Education programs and operations, and to request assistance in identifying potentially wasteful and costly practices and fraudulent activities in these operations and programs. Student financial assistance programs are identified as the most vulnerable to waste, fraud, and abuse, resulting in management improvement reports on the following issues, among others: improper screening of students' ability to benefit, improper course-length practices, oversight of secondary markets for student loans, diligence of loan collections, and tuition refunds. Other significant OIG activities are described in the areas of elementary, secondary, and other education programs and general Department management. A statistical profile highlights numbers of audit reports issued, processed, and resolved by program managers; investigative case activity and results; actual recoveries from audits and investigations; management improvement reports; debarment/suspension activities; hotline activities; and legislative and regulatory documents reviewed. A list of Regional Inspector General offices concludes the pamphlet. (JDD)

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This issue of the **Inspector General SPOTLIGHT** summarizes the significant accomplishments of the Department of Education's (ED) Office of Inspector General (OIG) during the six-month period ended March 31, 1990. The **SPOTLIGHT** is focused on important audit, investigative, and other OIG activities of the period, which are described in greater detail in our twentieth Semiannual Report to Congress.

The **SPOTLIGHT** is directed at ED employees and other interested individuals and organizations. Its purpose is twofold: first, to keep you apprised of current OIG efforts to prevent and detect fraud, waste or mismanagement in ED programs and operations; and second, to ask your assistance in identifying potentially wasteful and costly practices and fraudulent activities in these operations and programs.

If you know of or suspect any violations of law or regulations or other irregularities in the Department's programs and activities, please let us know. You need not reveal your identity. Remember—the OIG can't do it alone. We're counting on *you* to help us make the Department of Education a more efficient and effective agency.

James B. Thomas, Jr.

SYSTEMIC CHANGES ARE NEEDED TO PREVENT RECURRING ABUSES OF STUDENT AID FUNDS

Many institutions participating in the Department's student financial assistance (SFA) programs, particularly proprietary schools, have abused the programs at the expense of students, who are the intended beneficiaries. In these cases, students are often left without the skills to secure a job that would enable them to repay their student loans. Ultimately, it is the taxpayers who suffer the costs associated with student loan defaults.

The OIG has identified the student aid programs as the most vulnerable to waste, fraud and abuse in the Department. OIG efforts in this and the prior semiannual reporting period have concentrated on identifying serious systemic weaknesses that have contributed to recurring problems in the student aid programs, with a view toward recommending actions to help the Department prevent fraud, waste and abuse. Our management improvement reports (MIRs) on these systemic weaknesses include recommendations for legislative and regulatory changes which are critical to stop the bleeding of hundreds of millions of dollars through abuses by program participants.

Our audits, investigations, and inspections continue to result in recommendations for recovery of misspent student aid funds and removal of those individuals and institutions who abuse SFA funds from participation in the SFA programs, as well as criminal and civil court actions.

Our efforts this period produced MIRs in the following issue areas. Also reported are specific examples of the problems identified.

Improper screening of students' ability to benefit can result in improper admissions, raise false hopes and lead to loan defaults.

We recommended recovery of $6.8 million and $900,000 respectively from two schools for failing to properly screen students.

Improper course-length/course-stretching practices and clock- to credit-hour conversions inflate federally funded tuition costs and raise student debt.

We reported one program which was converted from 1,300 clock hours to 78 credit hours and increased SFA funding eligibility from $8,500 to $18,000 while the program did not change. At two schools which did not meet program-length requirements, we recommended recovery of $235,000 disbursed to students.

Proliferation of branch campuses puts students and taxpayers at financial risk when the school closes.

On the basis of operating a small barber school receiving a total of about $50,000 in SFA at any given time, a school opened a masonry school which within 9 months enrolled some 700 students with nearly $3.5 million in SFA. The masonry school subsequently closed owing an undetermined amount of tuition refunds and only about 20 students may have obtained masonry-related jobs.

Improvements in the Department's information management and other control sytems are needed to prevent participation of problem schools.

The Department's Institutional Eligibility System lacks significant pertinent data which makes it impossible for officials to use the system to determine whether participating schools have met eligibility, audit and other requirements.

Audit requirements, standards and other actions are needed to improve oversight of secondary markets for student loans, oversight of loan servicers and oversight of lenders themselves.

Audit requirements for the many secondary markets in the student aid programs do not provide information needed to protect the integrity

of funds. Although 41 percent of the outstanding loan portfolio is being managed by loan servicers the Department does not regulate or systematically review servicer operations. Despite the significant role lenders play in the programs, there are no minimum standards for conduct of required lender reviews by guarantee agencies.

Improved reporting and other actions are needed to improve diligence of loan collections.

A non-Federal audit of the New York State Higher Education Services Corporation recommended recovery of $238 million in ineligible default claims.

Fraudulent activity involving due diligence is also of concern. Shortly after the end of the period, Florida Federal Savings Bank and two of its former officers were convicted of 30 counts of student loan fraud, conspiracy, and embezzlement of approximately $18 million. OIG investigation disclosed that the bank submitted up to 17,000 fraudulent student loan insurance claims, worth approximately $35 million, through its officers and employees.

Also this period, Baybanks Credit Corporation pled guilty to fraud involving the falsification of documents to create the appearance that proper due diligence had been performed in trying to collect delinquent student loans.

Legislative and regulatory changes are needed to prevent abuses of the SLS and PLUS programs.

Certain proprietary schools have increased their tuition fees and improperly certified dependent students' eligibility for supplemental loans for students (SLS) to increase the volume of SLS dollars coming into the schools. In the PLUS program, we found that existing program regulations are not strong enough to prevent fraud and abuse.

In addition to the issues on which we have provided MIRs to the Department for action, we have found problems in other areas which will be reviewed for systemic flaws, including the following.

Certain schools fail to make tuition refunds intended for students who cannot complete their training.

During this reporting period, we reported two schools that failed to make refunds totaling $600,000, one school that made $1.2 million in late refunds, and indictment of one school owner and conviction of another for misappropriating a total of $315,000 in refunds due to students.

Chain schools present certain unique problems when they abuse SFA funds.

When improper practices are uncovered at chain schools, actions often span several semi-annual reporting periods. One such school is Wilfred American Educational Corporation, doing business as Wilfred Academy, Inc., and American Business Institute.

This period a Federal grand jury in Boston, Massachusetts, returned a 12-count indictment charging Wilfred American Educational Corporation with mail fraud involving a scheme to defraud the student-aid grant and loan programs of over $10 million. In Tampa, Florida, 9 of the 18 Wilfred employees indicted last year on various fraud and conspiracy charges pled guilty to making false statements.

OTHER SIGNIFICANT OIG ISSUANCES AND ACTIVITIES

—**ELEMENTARY, SECONDARY, AND OTHER EDUCATION PROGRAMS.** Audits of adherence by States to general administrative requirements applicable to all Department of Education programs disclosed unsupported costs of $721,000 in New York's Handicapped State Grant programs and $687,000 in Iowa's special, vocational and

adult education programs. They questioned costs of $766,000 in the State of Washington, and $812,000 in excess indirect cost claims by the Washington State Superintendent of Public Instruction. They projected annual savings of $1 million by revision of indirect cost proposals by the Massachusetts Department of Education and questioned unexpended lapsed vocational education funds of $1.2 million by that agency.

—**GENERAL DEPARTMENT MANAGEMENT.** In a management improvement report issued during the period, we advised the Deputy Under Secretary for Management that Federal funds may not always be spent on the programs for which they are charged, a situation that arises when a check or warrant properly written and charged to a program is not cashed by the payee. Based on our analysis and review, we estimated that about $2.5 million annually should be credited back to original programs at the school district level as a result of uncashed checks or warrants.

Debarment and suspension actions taken by the Department this period included debarment of the former owner and president of Hausman Computer School and suspension of the former vice president and operations manager of Florida Federal Savings bank, the Nation's third largest provider of guaranteed student loans.

The following is a statistical profile of OIG accomplishments during the six-month period.

STATISTICAL PROFILE
October 1, 1989 to March 31, 1990

AUDIT REPORTS ISSUED OR PROCESSED	2,741
—Questioned Costs	$290.7 M
—Unsupported Costs	$ 12.1 M
—Recommendations for Better Use of Funds	$ 41.1 M
AUDIT REPORTS RESOLVED BY PROGRAM MANAGERS	844
—Questioned Costs and Other Recommended Recoveries Sustained	$ 30.7 M

—Unsupported Costs Sustained	$ 8.7 M
—Additional Disallowances Identified by Program Managers	$ 5.8 M
—Management Commitment to Better Use of Funds	$ 68.9 M

INVESTIGATIVE CASE ACTIVITY	
—Cases Active at End of Period	721
—Cases Referred for Prosecution	109

INVESTIGATION RESULTS	
—Indictments/Informations	81
—Convictions/Pleas	98
—Civil Filings	2
—Fines Ordered	$527,218
—Restitutions Ordered	$787,276
—Restitution Payments Collected	$341,364
—Civil Judgment	$ 9.0 M

ACTUAL RECOVERIES FROM AUDITS AND INVESTIGATIONS	$ 30.4 M

MANAGEMENT IMPROVEMENT REPORTS	
—Reports Issued	15
—Recommendations for Better Use of Funds	$ 3.1 M
—Reports Resolved by Program Managers	1
—Management Commitment to Better Use of Funds	$ 2.5 M

DEBARMENT/SUSPENSION ACTIVITIES	
—OIG Requests for Departmental Action	24
—Individuals/Entities Debarred	29
—Individuals/Entities Suspended	2

HOTLINE ACTIVITIES	
—Allegations Received	50
—Allegations Closed	28
—Allegations Substantiated	3

LEGISLATIVE AND REGULATORY DOCUMENTS REVIEWED	182

(M = million)

REMEMBER: The OIG need your help! Anyone knowing of fraud, waste or abuse involving Department of Education funds or programs should call or write the **Inspector General's Hotline.** The toll-free Hotline number is **1-800-MIS-USED.** [Federal employees may call (FTS) 755-2770.] The mailing address is:

Inspector General's Hotline
P.O. Box 23458
Washington, D.C. 20026

Your report may be made anonymously or in confidence.

Individuals wishing to report such activities may also contact the nearest Regional Inspector General at the following locations:

City/State	Region	Area Code	Audit	Investigation
Boston, MA	I	(617)	223-9300	223-9301
New York, NY	II	(212)	264-8442	264-4104
Philadelphia, PA	III	(215)	596-0262	596-1021
Atlanta, GA	IV	(404)	331-5862	331-2087
Chicago, IL	V	(312)	886-6503	353-7891
Dallas, TX	VI	(214)	767-3826	767-3361
Kansas City, MO	VII	(816)	891-7981	891-7958
Denver, CO	VIII	(303)	844-2385	844-4517
San Francisco, CA	IX	(415)	556-2711	556-6726
Seattle, WA	X	(206)	442-0647	442-1482